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WEEKLY SUMMARY

Secret

15 June 1973

No. 0374/73

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The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

WARNING

The WEEKLY SUMMARY contains classified information affecting the national security of the United States, within the meaning of Title 18, sections 793 and 794, of the US Code, as amended. Its transmission or revelation of its contents to or receipt by an unauthorized person is prohibited by law.

DISSEMINATION CONTROLS

[redacted]

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BREZHNEV and the SUMMIT

Leonid Ilich Brezhnev comes to Washington politically stronger and more confident than ever before in his nine years as Soviet party chief. In recent weeks, he has improved his position in the leadership through the change of personnel in the party's ruling Politburo. His power position has been publicly manifested in a cult around his name unmatched since Khrushchev was at his peak. Brezhnev's foreign policy won sweeping approval at the Central Committee meeting in late April. Furthermore, the negotiating positions he brings to Washington have been approved by the Politburo, and this time Politburo approval carries the explicit approval of the minister of defense and the head of KGB—both newly elected to the ruling body.

A year ago, the outlook for Brezhnev was much less certain. His position, though undoubtedly strong, rested on shakier foundations. His foreign policies, particularly the openings toward Bonn and Washington, were a matter of contention within the leadership. His willingness to press on with the Moscow summit despite the bombing of North Vietnam was especially controversial within the Soviet leadership. The agreements signed at the summit were proclaimed by Brezhnev as of great international importance; they

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were regarded with some skepticism by segments of Soviet officialdom. His moves toward Germany were put in peril by the difficulties Chancellor Brandt faced at home.

Brezhnev's concerns last year extended to the domestic front. His agricultural and livestock programs were threatened by a grain harvest that fell far short of needs, creating an unprecedented dependency on Western and especially US sources of grain. The performance of Soviet industry was unsatisfactory with industrial growth the lowest it has been since World War II.

Brezhnev's concern that his visit not be disrupted by anti-Soviet demonstrations has led him to insist on flexible scheduling. During his visit to West Germany he shifted his schedule several times at the last minute, and Soviet officials in his entourage then said they hoped to follow the same procedure in the US.

This year, Brezhnev has reason to be guardedly optimistic about the prospects for an improved performance in agriculture and industry. The outlook is for a fairly good grain harvest that should lessen Soviet needs for foreign supplies. Industrial growth during the first quarter of the year has improved somewhat over the below-average performance last year. He can therefore hope the Soviet economy is in at least a moderate upswing. In the foreign policy sphere, the re-election of Brandt by an unexpectedly large majority last November and progress at the European Security Conference preparatory talks have reinforced Brezhnev's policy of seeking detente in Europe. Brezhnev's visit to Bonn in May went well.

All of these "successes" will have an effect on Brezhnev's negotiating posture in Washington, as will his perception of US domestic developments and their effect on US relations with its allies. It is clear from the way the Soviets have handled the Watergate affair that they hope it will not become an obstacle to further progress in US-Soviet relations. The occasional items on Watergate that have appeared in the Soviet press have been perfunctory and purely reportorial.

The Soviets have expended considerable effort to portray the US, and the President in particular, as embarked on a new course in relations with the USSR. They call the Moscow summit last year a turning point in relations and say the Brezhnev trip to Washington will add momentum to the cause of detente. Bilateral agreements on matters like transportation and oceanography are ready for signature, but it is doubtful that Brezhnev expects that his visit to Washington will result in major agreements on a wide range of issues to match those reached in Moscow.

Brezhnev's main purpose will be to generate more public and political support for American dealings with the USSR. He will give special emphasis to economic relations and to influencing a favorable outcome of congressional legislation on most-favored-nation treatment for the USSR. He will promote the notion that the economies of the two countries are complementary and will stress the mutual advantage of economic cooperation. As he did in Bonn, he is likely to paint a glowing picture of the almost unlimited prospects for the exchange of Soviet natural resources for US technology and finished products.

Brezhnev will convey Moscow's willingness to cooperate with the US in building a more stable international order. He will point to negotiations on strategic arms limitations, on European security, and on force reductions as examples of a new spirit of East-West reconciliation and of Moscow's commitment to burying the legacies of the Cold War. On the Middle East and Indochina, Brezhnev is likely to be reserved. He will probably confine himself to expressing Moscow's desire to help in the search for durable solutions, but it is doubtful he will come up with new proposals that would lead to meaningful change in either situation. 25X1

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Setback on the Kama

The first Western newsmen permitted to visit the Kama truck facility report that five of the six plants of the complex are still open steel structures and that only the tool and repair plant is near completion. The complex originally was to be completed by 1974, but construction is at least two years behind schedule. As matters now stand, the plant is not likely to begin even limited production before 1976.

The complex, designed to produce 150,000 heavy diesel trucks a year, is being built with extensive foreign assistance. About three fourths of the estimated $1 billion worth of equipment required will come from the West. Orders valued at about $500 million have already been placed with suppliers in the industrial West, mostly during the past 12 months.

Nearly two thirds of the equipment for the engine, gear, and transmission plant and the forge plant, and virtually all of the machinery for the stamping and pressing plant have been ordered from the West. The foundry will be designed and equipped exclusively by US firms: it was slated for operation early next year, but appears the furthest behind schedule. Most of the equipment for the small tool and repair plant and the assembly plant is being supplied by manufacturers in the USSR and Eastern Europe.

More than half of the contracts for Western equipment and engineering services were placed in Western Europe—mainly in West Germany and France. Most of the rest were placed in the US. US firms have won contracts worth almost $200 million for foundry equipment, for machine tools and for pressing equipment. US firms also have submitted bids on conveyors and a computer system. Renault of France is designing the engine, gear and transmission plant that will account for nearly half the complex's total equipment cost. Renault is also coordinating supplier contracts and providing machine tools and paint lines. West Germany is furnishing equipment to make transmissions and forges, Italy is supplying conveyors, and Japan has received orders for stamping presses.

Until recently, the Soviets have maintained good working relations with their Western suppliers, but strains are developing. Kama officials have complained that a US engineering firm has delayed completion of the foundry by failing to deliver designs on time. The US firm's work, however, has been hindered by frequent Soviet design changes and by Soviet failures to make final decisions on equipment. Renault has had fewer problems, but it too is being hampered by the Soviet refusal to provide sufficient information or to permit Renault personnel access to the plant site. As a result, Renault is operating largely in the dark. Many of these same difficulties plagued Western contractors during the construction of the Fiat plant at Tolyatti. 25X1

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Equipment Costs for the Kama Truck Complex

Plants	Total Cost of Equipment ($ US million)	Purchases from the West to date ($ US million)
Foundry	250	96
Engine, Gear, and Transmission	450	279
Forging	40	25
Pressing and Stamping	80	76
Assembly	150	34
Tooling and Repair	13	3
	983	513

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International Oil:

Sellers' Market

Producing countries are finding a ready market for the oil coming under their control. Saudi Arabia and Abu Dhabi, which are receiving oil under the recently ratified participation agreement for the Persian Gulf Arab states, have already sold all the oil coming to them in 1973 and much of that which they will receive through 1975. Iran has sold most of the oil it will receive through 1975. Iraq has committed the total output from the nationalized Kirkuk and North Rumaila fields through 1975. Even Libya has found markets, particularly in Communist countries, for the "hot" oil from the expropriated Sarir field. The non-Communist governments are selling about 3 million barrels per day this year, about 9 percent of the oil being traded worldwide.

The producing states are receiving up to 55 percent more revenue per barrel for the oil they market themselves than they receive in the form of taxes and royalties on the oil produced by private companies. The companies are allowed to buy participation oil that producing states are entitled to, but choose not to market themselves. The "buy-back" price on this oil is considerably below the open market price.

The strong demand for government-controlled oil has been generated primarily by the small independent companies—particularly in the US and Japan—and by the national oil companies of some developing countries seeking oil to supplement supplies from the large international oil companies.

The ease with which the oil-producing countries have been able to market their own oil has long-term significance for the world market. The oil-producing states, unsure of market response, chose to take only the minimum of their share through 1976, that is, 10 percent in 1973, climbing to 30 percent in 1976. The heady experience of the last five months will encourage them to claim a much larger part of their share under the participation agreement or, alternatively, to seek a much higher buy-back price from the oil companies for the years after 1976. It is even possible that the producing states, noting the wide discrepancy between market and buy-back prices, may seek to renegotiate the terms of the earlier agreements.

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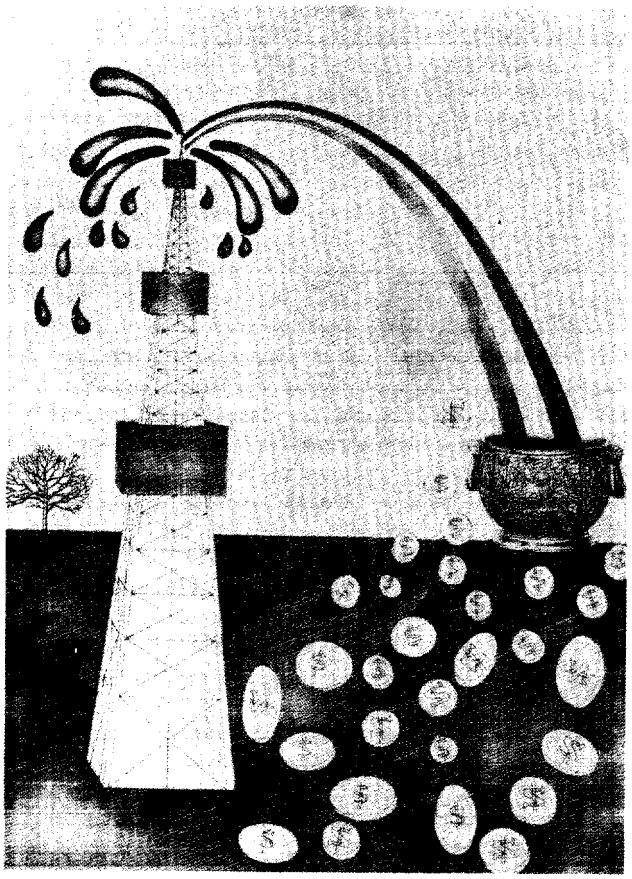

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OAS: Reorganization and Cuba

11 Representatives of the 23 members of the Organization of American States are scheduled to convene in Lima on 20 June to study proposals to restructure the world's oldest regional organization. Many of them—perhaps a majority—are in general agreement about their objectives: to challenge US influence, decentralize the inter-American system, and permit member nations to ignore OAS sanctions against Cuba if they wish.

11 Venezuela, Panama, and Ecuador, along with the seven countries that have already defied the OAS by re-establishing diplomatic relations with Cuba, desire reforms to achieve all these objectives. If this group is joined by at least two other countries, it will constitute a majority. It will be handicapped, however, by the requirement for a two-thirds vote on any substantive issue, by the shortage of time remaining before recommendations must be forwarded to the OAS Council, and by failure so far to reach agreement on which of the several reorganization schemes that are being discussed should be favored. At the meeting, the reform wing—led by Peru—is likely to win at least some moral victories and pass some reforms, but these will fall short of the extensive overhaul of the OAS that many desire.

9 Venezuela is eager to play a major role in the process and may again begin to press for a relaxation in the sanctions against Cuba. In a surprise move in early June, Venezuelan diplomats at the OAS and in Latin American capitals began an offensive in support of a special session of the OAS Council to reconsider the Cuba issue. The proposal was dropped without a council meeting being convoked, however, after Caracas concluded that it would fall one or two votes short of a majority.

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10 The flurry of diplomatic activity generated by the Venezuelans emphasizes once again how far attitudes have shifted on the Cuba issue. Even Guatemala—once one of the strongest advocates of a strict isolation of Cuba—is reappraising its stand. Foreign Minister Arenales told the US ambassador on 8 June that although he "opposes all that Castro stands for" he would instruct his OAS ambassador to abstain on the issue unless his vote was essential.

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Castro

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INDOCHINA

A NEW PHASE OF THE CEASE-FIRE

12 The Communists apparently are planning no major new military action following the announcement of what the Communists call the "second cease-fire agreement."

12 the Communists expected that Saigon would sign the agreement, but they do not expect the South Vietnamese Government to abide by its conditions. Communist military units must be employed primarily in defense of the liberated areas against anticipated South Vietnamese incursions.

Cadre are to concentrate on propaganda, education, and troop proselyting, as well as on trying to convince the people that the new agreement represents a major political victory for the Communists.

13 Both sides stepped up the tempo of military action early this week prior to the anticipated strengthening of the cease-fire agreement. For the most part, South Vietnamese military units carried the battle to the enemy with incursions into Communist-held territory. The Communists played mainly a defensive role, and there were few solid indications that they were planning any major military campaign. Since they apparently consider last-minute timing as the key to successful land-grabbing operations, they could shift tactics abruptly.

13 Military action erupted early in the week in several long-time trouble areas. The South Vietnamese made small inroads in widely scattered regions, but were thwarted in other thrusts, including a major effort to reopen Route 13 north of Saigon. The Communists showed muscle in some areas. They seized several villages in Kontum Province and were active in long-time sore spots of the delta—Chuong Thien and Dinh Tuong provinces. 25X1

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Saigon Prepares for an Election

13 The Saigon government has been going ahead with preparations for the election of half of the South Vietnamese Senate in August. President 14 Thieu promulgated the law regulating the election this week, and candidates apparently must file by 17 June. A number of non-Communists of various 15 stripes are considering entering the race, but Thieu's Democracy Party is clearly in a dominant position. Two slates of 15 candidates each will be elected. Each group putting up a slate must post a substantial deposit, which it must forfeit if it fails to win 10 percent of the vote.

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LE DUAN GOES HOME DISSATISFIED

13 Le Duan and Pham Van Dong do not appear to have achieved what they wanted in their week-long trip to China. The first secretary and the premier were given the usual round of banquets, rallies, and factory visits, and they had an audience with Mao. They also concluded a new economic and military aid agreement for 1974.

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Both were absent from some of the routine ceremonial visits, and they were together during the latter few days of the visit. The usual references to Sino - North Vietnamese solidarity were made in public, but they were outweighed by significant differences, notably on the two most important issues of all—implementation of the Paris agreement and Chinese aid.

The differences were laid out in speeches by Le Duan and Chinese politburo member Yeh Chien-ying at a mass rally on 7 June. Le Duan blamed all cease-fire violations on US "neocolonialism" and admonished the Communists' opponents to improve their adherence. His harsh criticism of the US seems to stem in part from a continuing concern that Sino-American dealings might limit Hanoi's options. Yeh, by contrast, stated that "all parties" should respect the agreements. He mentioned the US only in passing, although he did level some criticism at Saigon.

Aid was clearly the subject of considerable disagreement. In asserting at the rally that the North Vietnamese "believe" Peking will come through with the sort of aid Hanoi thinks it deserves, Le Duan betrayed concern over the quantity and composition of future Chinese assistance. Yeh, on the other hand, blandly implied that Chinese aid to the North is meant for reconstruction and Chinese assistance to the South is for "building national concord." The language in the announcement of a final aid agreement indicates that Peking's assistance will be weighted on the civilian side, and the tepid statement in the final communique that both sides are "glad" the agreement was signed indicates that Hanoi remains unhappy.

The communique contains further evidence of divergences over the implementation of the Paris agreement. Almost half the text—including all but one sentence of the paragraphs dealing with Vietnam—is cast in the form of unilateral statements by one party or the other. Peking's portions are full of language about the great victory scored by the Vietnamese Communists, about the emphasis that allegedly will now be

North Vietnamese Premier Pham Van Dong (2nd from left) and Le Duan greeted by Chou En-lai in Peking

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placed on reconstruction and consolidation, and about the importance of implementing the Paris accord.

The North Vietnamese portions are shorter, narrower in scope, and more defensive: Hanoi is grateful for past Chinese aid; the Vietnamese Communists have a "consistent stand" of "strictly implementing" the agreement; Saigon and the US are to blame for shortcomings.

Conspicuously missing from the Chinese sections is any condemnation of either Saigon or the US or any expression of across-the-board support for Hanoi. Equally conspicuous is Hanoi's failure to mention its own attitude on the question of implementing the agreement.

These divergences are not surprising. It has been apparent for some weeks that Hanoi has been unhappy with Peking, and the significance of the visit may lie in the fact that it confirms the changes that have occurred over the past couple of years in the Sino - North Vietnamese relationship. Le Duan and Pham Van Dong probably were trying at the highest level to secure a modification of Chinese policies that were galling Hanoi. The communique indicates that they failed in most important respects. They may not be deterred from trying again, but under present circumstances they probably believe the odds are against them.

CAMBODIA: POLITICAL PARALYSIS

A month has passed since the new cabinet headed by Prime Minister In Tam was installed. In that time, neither the cabinet nor the ruling High Political Council has made any significant effort to meet the country's priority military and economic problems. Much of the inertia results from Lon Nol's efforts to reassert his supremacy over the three other council members—including In Tam—and over governmental affairs in general. There have been indications that Lon Nol is trying to bypass the council. Thus far, the other council members have been unable to work together and make the president hew to the arrangement for sharing authority that was the key to the council's formation.

Lon Nol's activities have been particularly unsettling to In Tam. The prime minister has become discouraged by the President's ability to keep In Tam from the center of power. In Tam has also found it hard to forge good relations with senior military officers who hold him in low esteem. Some of these officers probably are supporting Lon Nol's maneuvers in order to block military reforms—including the replacement of incompetent and corrupt commanders. Although In Tam evidently is willing to stay in office despite these difficulties, the chances that he or the council will be able to provide a semblance of effective government remain poor.

Of Roads and Rockets

The Phnom Penh area was the focal point of military activity again this week as the Khmer Communists pressed attacks west and south of the city. The heaviest fighting took place along Route 4. Despite determined efforts by heavily reinforced government troops to clear the road, the Communists at mid-week were still in control of a short segment some 15 miles from the capital. Communist forces also retained control over most of Route 26 south of Thnal Totung on Route 4, and government attempts to clear that road also made little progress.

Lon Nol

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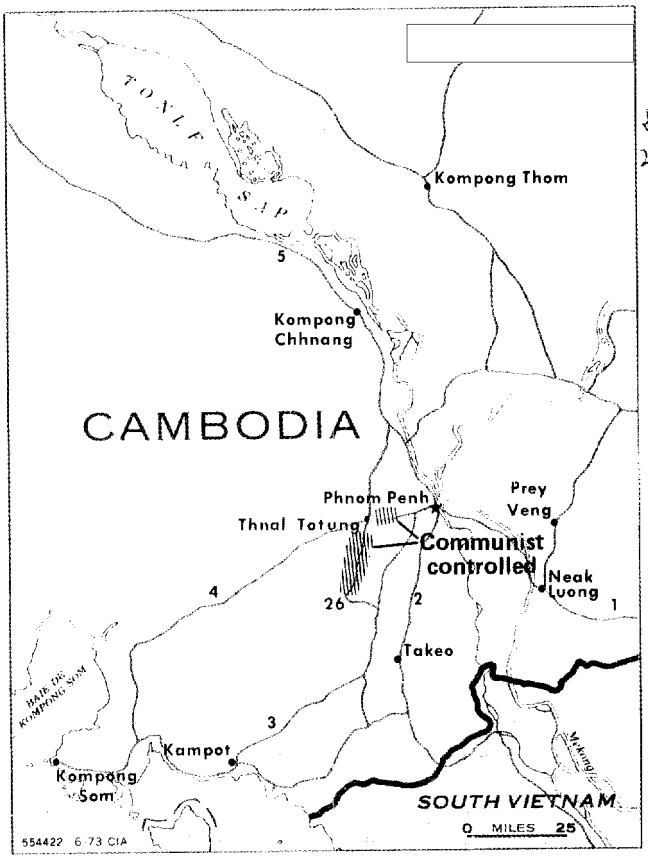

21 The Communists also kept up pressure on government forces along Routes 2 and 3 south of Phnom Penh. Several government defensive positions along both highways were abandoned during the week. Communist resistance forced government troops to suspend sweep operations west of Route 3.

21 The Communists shelled Phnom Penh's airport on 10 and 11 June, but caused only minor damage. More extensive damage resulted from Communist rocket and mortar fire in the northwest against the Cambodian Air Force maintenance and training center at Battambang on 10 and 12 June. Three fighter aircraft and a number of other military and civilian aircraft were damaged in the attack on 10 June, and another aircraft and a munitions depot were destroyed on the 12th. The actions at Battambang were the first since the war began.

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JAPAN: WHAT DOES MOSCOW WANT?

22 Japanese-Soviet relations, which were warming, hit a snag in the past few weeks. Moscow has informed Prime Minister Tanaka that his proposed mid-August visit would be "inconvenient." Prior to this rebuff the Russians had requested the postponement of a Japanese mission that was to discuss details of the Tyumen oil project. The Soviets underlined the deliberateness of the snub to Tanaka by making another announcement welcoming a Japanese parliamentary mission that is to go to Moscow in late August.

22 25X6 An announcement by Tanaka on 9 June that he would visit the USSR sometime after 20 September has prompted Japanese press speculation that he intends to visit Moscow en route to or from Europe. There is no evidence, however, that the Soviets have yet given their assent to this timing.

22 There are several possible explanations for Moscow's action, none of which can be very encouraging to Tokyo: Moscow may be chary of hosting a state visitor whose political future is cloudy; the Soviets may want to wait until Brezhnev completes his visit to the US and they have had a chance to weigh the benefits of possible US and West European participation in the development of Soviet resources; and finally Moscow may just be stringing Tokyo along in hopes of driving hard bargains with a politically weakened Japanese leader.

22 The Soviets have been trying to stimulate US, West German, and Japanese interest in developing Soviet resources by suggesting to each of the parties the possibility of losing out to the others. Moscow may now believe that it has more to gain by cultivating the West, particularly West Germany. 25X1

CHINA: DIVIDING THE LOAD

24 China's political apparatus is being slowly reorganized at provincial levels and below. The aim is apparently to restore the system in use before the Cultural Revolution when there were parallel party and government structures with separate personnel and distinct responsibilities. Since the Cultural Revolution, party and government functions have been consolidated in so-called revolutionary committees. In the new reorganization scheme, these committees are to be phased out. Some of their functions will be returned to the party committees; other functions will be taken over by newly formed governmental organizations. Progress in effecting the reorganization is being slowed by the reluctance of some revolutionary committees to relinquish their authority and by wrangling over who should be named to the new party committees.

25 [redacted] instructions issued in mid-1972 called upon the revolutionary committees to assist in forming party branches. Political power was to be gradually transferred from the revolutionary to the party committees, and administrative power was to be turned over to professional managers. When these transfers were complete, the revolutionary committees would [redacted] be abolished.

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25X1 [redacted] revolutionary committee signboards have been removed but that most committees remain intact because no replacement organizations have been activated. There are other reports that some revolutionary committees have been abolished or are operating at a reduced level after relinquishing some of their powers to party committees. [redacted] the slowness to the unwillingness of revolutionary committees to give up their power. Progress has been faster in nearby Fukien. The provincial party committee recently regained such functions as the supervision of propaganda and the recruitment and training of cadre. Elsewhere, progress has been uneven.

24 Actually, the party-rebuilding process goes back to 1969, and it has encountered serious obstacles. Last month, provincial work conferences in Anhwei and Kirin emphasized the need to bring in new cadre, if the party is to be built up; this concept has met a good deal of resistance. The Kirin conference report attacked those who "still cannot fully understand the importance of training and promoting new cadre." The chief opponents are officials rehabilitated after the Cultural Revolution; these officials are now vying with the newcomers for posts in the rebuilt party apparatus. So far, many more veterans than newcomers are winning party jobs at the provincial level, and the pattern may be repeated at lower levels. This trend is sure to arouse the antipathy of those who want more new blood in the party.

24 Personnel problems like these will intensify as revolutionary committees disband. In areas where party and revolutionary committees have coexisted for several years, revolutionary committee leaders have usually doubled as party bosses and will probably retain their party posts. The same does not hold true for ordinary members of the revolutionary committees, whether rehabilitated veteran or newcomer. Both could find themselves without work when the revolutionary committees close down, and both will be competing for positions in the new government organizations. 25X1 25X1

24 There has been speculation that on the government side the revolutionary committees will be replaced by "people's councils," which were the local administrative organizations before the Cultural Revolution. Some kind of government apparatus will have to emerge after the revolutionary committees are dissolved. Details are probably still under discussion, but the relationship between the party committees and the new administrative units is likely to be more clearly defined than has been the relationship between party and revolutionary committees. [redacted] 25X1 25X1

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THAILAND: A KRA CANAL

The Thai Government has under way several feasibility studies concerning a canal across the Malay Peninsula. Such a canal has been considered at various times since the late 18th century but the canal has never been built. The high cost of present proposals and a strong likelihood that such a canal might not attract enough business to cover operating costs suggest that a canal will not prove an economic venture at this time either.

Two sites are under consideration. One runs from Surat Thani on the Gulf of Thailand southwest to the Indian Ocean. It is being surveyed for the Thai National Energy Authority. A second site near the Malay border, from Satun on the western coast of the peninsula to Songkhla Lake near the Gulf of Thailand, is being studied intensively by American firms. As now envisioned, a canal in this area would be about 50 miles long and at sea level. US scientists are assessing the possibility of using nuclear explosives; they are also evaluating the canal's political and social effects on Thailand and neighboring countries. Construction costs for either canal would range upwards of $1 billion, and annual operating costs would be in excess of $100 million.

On the basis of current estimates, the canal would appear to be neither economically feasible nor self-supporting. Even if all oil tankers currently using the Malacca Straits elect to use the canal and if the volume of Middle East crude oil shipped to Japan doubles or triples in the next decade, transit fees would probably not meet the canal's annual operating costs. It is unlikely that the canal would attract enough cargo ships to make up the deficit.

After preliminary studies are completed later this year, there are plans to convene an international group of technical, economic and financial experts to evaluate the data. If their report is favorable, the Thai Government would then have the difficult task of convincing international lending agencies of the feasibility of the project.

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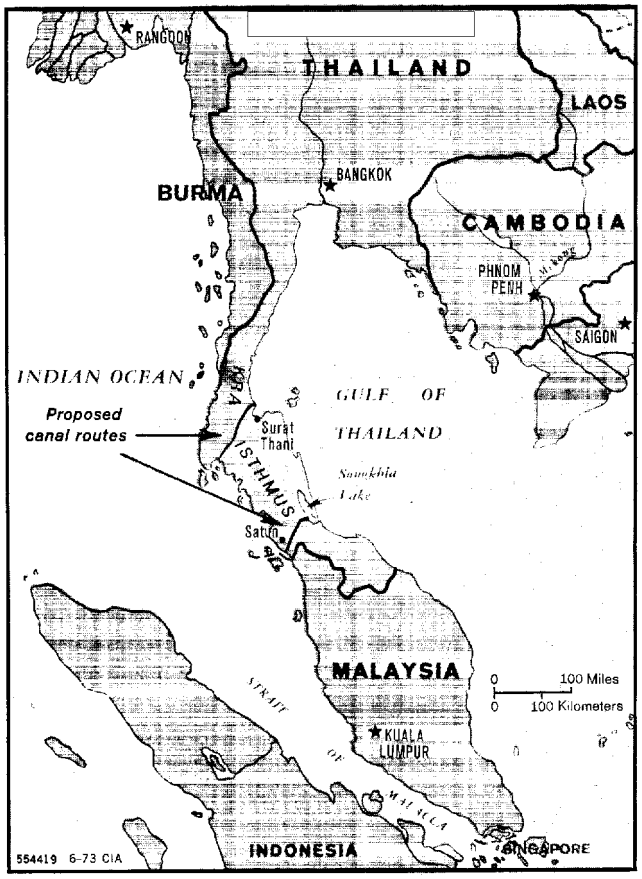

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USSR: THE CHARGER IN PARIS

The crash of the Soviet supersonic transport, the TU-144 Charger B, at the Paris Air Show on 3 June probably will not result in serious delays in production of the aircraft. Western reports terming the crash a "technological disaster" for the Soviets are exaggerated. Prior to the accident, the Soviets indicated that they were satisfied with the aircraft and planned to institute commercial service in 1975. The accident was caused by a number of unusual circumstances that would not occur during a commercial flight, and aside from making some minor design changes, the Soviets probably will press ahead to meet their timetable.

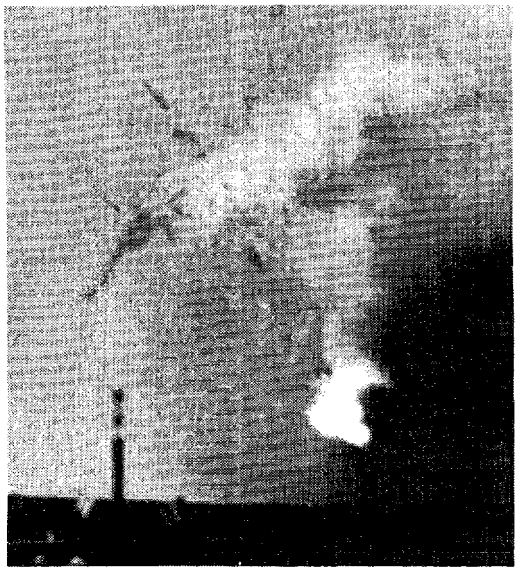
Intense competition at the air show between the Charger and the Franco-British Concorde was a contributing factor. On the day before the accident both the Charger and the Concorde flew demonstration flights. The Concorde put on an eye-catching show that seemed to overshadow the performance of the TU-144.

Afterwards, some Western participants remarked to the Soviet crew that the Charger had been outperformed by the Concorde. The Soviet co-pilot responded, "If you didn't like what we did today, wait until tomorrow." A US aerospace official was denied permission to fly with the Soviets on both days because the crew expected to engage in "violent maneuvers."

The culmination of the demonstration flight on 3 June was the simulation of a wave-off, in which the aircraft makes a normal landing approach and then climbs steeply to regain altitude. The Concorde had executed this maneuver just before the Charger flew. Qualified Western observers believe the Soviet pilot tried to "stand the aircraft on its tail" as he climbed out. This maneuver is routine for fighter aircraft, but not for transports.

There are several theories about what actually happened during the sharp climb. One is

TU-144 at Paris, top; nose view shows canard wings, lower left; burning aircraft falls, lower right



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that the aircraft stalled and began to flutter, resulting in its canard wings breaking loose. These are small wings mounted forward on the fuselage ahead of the regular wings. They are used to control the aircraft at low speeds during takeoff and landing. On the Charger they are retractable.

Another theory is that part of one of the canards broke off at the top of the climb, causing the aircraft to flutter. This condition then resulted in the canards breaking completely off. The loss of the canards deprived the pilot of the control required and made a crash inevitable. Still another possibility is that the aircraft might have stalled because of engine flameout. The explosion while the TU-144 was still in the air probably was due to fuel from ruptured lines being ignited by the high temperatures of the aircraft's afterburners.

In the course of its development, the TU-144 has undergone a number of significant changes. The first prototype flew in December 1968 and was displayed at Paris in 1971 and Hamburg in 1972. The Charger B is larger in dimensions and in passenger capacity. It incorporates so many changes in structure and configuration from the first prototype—including the addition of the retractable canard wings—as to be a basic redesign. The TU-144 lost at Paris was the second production model. Several production aircraft are in various stages of assembly.

The Soviets probably will modify the canards, possibly making them permanently extended but capable of some rotation rather than retractable. Extensive flight testing at stall speeds and some engine modifications will also be needed.

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SPAIN: RIGHTER THAN RIGHT

55 Franco's decision to step down as chief of government now instead of waiting for death to remove him will ensure a smoother succession. Spain can begin to adjust to a new premier, Admiral Luis Carrero Blanco, who will serve a five-year term. When Franco dies, Prince Juan Carlos, named by Franco in 1969 as king designate, will become chief of state. Although Franco's health has been declining in recent years, there is no indication that the decision to move Carrero Blanco up from the vice premier job was prompted by some recent change in Franco's condition.

56 The cabinet sworn in this week has eleven new ministers and eight holdovers. It represents a slight shift to the right in domestic policy. The changes provide a more balanced representation between adherents of the Catholic lay organization Opus Dei, whose members predominated in the outgoing cabinet, and elements of the National Movement, which is Spain's only legal political organization. The influence of Opus Dei may be lessened by the cut in its cabinet members from eight to seven and the removal of the flamboyant Lopez Bravo as foreign minister. His replacement, however, is another dedicated Opus Dei member, economist and former planning minister Lopez Rodo.

57 The dismissal of cabinet members who had caused policy or personality conflicts should produce greater cohesion. The outgoing cabinet was often disturbed by clashes between Lopez Bravo and Finance Minister Monreal Luque over financial policy, and between ministers advocating strong measures against dissent and Opus Dei technocrats concerned with Spain's image abroad. Other factors contributed to the ouster of Lopez Bravo. Despite much fanfare, he failed to make any progress on the Gibraltar issue, on revision of the concordat governing Spain's relations with the Vatican, and on Spanish relations with the EC and Morocco. Lopez Bravo reportedly also antagonized Carrero Blanco by going over his head to Franco.

55 The ministers of interior, justice, and education were dropped because they failed to cope with problems in their areas of responsibility. Last month, for example, right-wing demonstrators staged protests over the murder of a policeman by a terrorist group, alleging that his death was the result of the interior minister's order forbidding police to use arms to quell May Day demonstrations. The new cabinet is likely to take severe measures against those who seek to protest against the government.

58 Foreign policy will reflect the commitment of the new foreign minister to the objective of Spain's integration in Western Europe. Although Lopez Rodo is generally well disposed toward the US, he is a tough negotiator and a firm defender of Spanish economic interests. He may take a more rigid position on bilateral issues with the US.

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Franco and Admiral Luis Carrero Blanco

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EC: THE US PROBLEM

The nine EC member governments are not making much progress toward agreeing on a restatement of principles governing US-European relations, as suggested in the Kissinger speech of 23 April. France was the chief obstacle to agreement at meetings of the foreign ministers in Luxembourg last week. The nine agreed to meet again next month to try to harmonize their views, and they apparently decided to use the EC's political consultations mechanism to assist in preparing this meeting.

Although the discussion of US-European relations lasted until early evening, the foreign ministers continued in session to argue over a report on ways to improve coordination of their foreign policies. Despite Danish and French reservations, the ministers were able to agree that EC governments should as a rule consult before taking definite positions on important foreign policy issues. They also agreed that the political committee should "draw the attention" of the member governments to foreign policy propositions debated and adopted by the European Parliament.

Toward the close of the Luxembourg session on political consultation, French Foreign Minister Jobert apparently shrugged off British disappointment over the slim results with an unusually direct reference to the nationalist sentiment that still activates French thinking on the political organization of Europe. Recalling that France would have agreed to a political secretariat provided it were located in Paris, Jobert indicated that the blame for lack of progress lay therefore with the other EC members, who had opposed Paris.

In the trade area where the EC's institutions are stronger and the specific issues clearer both among the EC members and between them and the US, the EC bids fair to keep to its schedule in preparing the EC position for the coming multilateral trade negotiations. French Foreign Minister Jobert went so far on 4 June as to describe the Commission's draft setting forth the EC position as "excellent." The Commission must still redraft its proposals for the next Council meeting and must take recently proposed tough French amendments into account.

Four key questions remain unsettled with the Irish supporting the French and the remaining members generally on the other side. The questions are:

- the implementation of trade liberalizing measures and their relationship to monetary reform;
- should tariff reductions be uniform or should high, including US, tariffs be singled out for greater cuts;
- what to do about agriculture;
- safeguards against disruptive foreign competition.

Council members now generally believe that final agreement at the Council meeting on 25-26 June is possible. This would meet the EC's self-imposed deadline of 1 July. [redacted] 25X1

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NORWAY: A GOVERNMENT SURVIVES

The mini-coalition of Lars Korvald, having survived a no-confidence vote last week, will probably last until the September elections. Labor Party chairman Trygve Bratteli's motion aimed at toppling the government was defeated 77-73, just before Parliament recessed for the summer. The Labor Party's 73 representatives stood alone, deserted by Helge Seip, chairman of the New People's Party, who precipitated the no-confidence vote.

Rumors began in early spring that the Labor Party hoped to unseat the Korvald government after it negotiated a free-trade agreement with the EC. Laborites suggested that, after the negotiations were concluded, there would no

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longer be any need to retain the Korvald coalition. Furthermore, the Labor Party, which came within two seats of an absolute majority in the 1969 election, wants very much to win a clear-cut majority in September. Bratteli reasoned that if his party could return to power and campaign as the incumbent, the party's chances in the election would be improved. All the opposition needed was a suitable issue, which Korvald was at some pains not to give the Laborites.

Last month, Seip's New People's Party accused the government of failing to get parliamentary approval for the purchase of the French Crotale air defense missile and of using the missile deal as leverage against the French who had been obstinate in Oslo's EC negotiations. The Labor Party joined in the attack on the government.

It turned out, however, that Bratteli and Seip were at cross purposes. While Bratteli sought to replace Korvald, Seip wanted only to discredit certain Liberal Party leaders for their part in the missile affair. Seip has claimed that his party's support for the government last week should not be seen as a declaration of confidence in the coalition.

The real losers in this exchange appear to be the Laborites. Labor Party popularity is at its lowest point since World War II, and the party's failure to return to office now means it must wage an uphill battle in the fall elections, and prospects for winning a majority seem slight.

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ITALY: INVITATION TO THE LEFT

The resignation of Prime Minister Giulio Andreotti this week set in motion negotiations aimed at bringing the Socialist Party back into the government. Andreotti's centrist coalition included the conservative Liberal Party instead of the Socialists, who until last June had taken part in nearly a decade of center-left rule.

The loss of parliamentary support and developments at the Christian Democratic Party congress triggered Andreotti's resignation. Just before the congress, Andreotti was undercut by the Republican Party, whose small parliamentary delegation provided his government's paper-thin majority. The Republicans withdrew their support after Andreotti refused to yield to their demands for a reversal of government policy restricting independent TV broadcasts.

The Christian Democratic meeting concluded Sunday with a unity statement which indicated a desire to resuscitate the center-left idea. Veteran party leader Amintore Fanfani patched together the compromise statement, which was vague on details, in closed-door sessions before the congress. All major faction leaders fell into line, including Andreotti, and his acquiescence suggests that he will receive a major post, perhaps the foreign ministry, in a new government.

The political climate is more conducive to a center-left coalition than it was during the negotiations which produced the Andreotti coalition a year ago. The Socialists have toned down their advocacy of closer cooperation with the Communists at the national level. The rightward drift of public opinion, exemplified by neo-fascist gains in elections in 1971 and 1972, has been checked by widespread revulsion against the political violence spawned by the far right. Finally, Andreotti's frequent parliamentary defeats on key issues, largely because of Christian Democratic defections, underscored the difficulty of governing Italy with such a thin majority.

Negotiations on the specific terms of a new partnership with the Socialists are likely to be long and difficult. The Socialists have been receptive to Christian Democratic probes, but have been careful not to cede any bargaining points. Other probable center-left participants will also prove contentious. The moderate Social Democrats will want guarantees of Socialist autonomy from the Communists, and the Republican Party will lobby hard for commitments to specific economic reforms. Center and right-wing Christian Democrats have doubts about a return to the center-left formula.

Andreotti is remaining as head of a caretaker government during the negotiations. In the next few days, the Christian Democrats will choose a new party chief and begin talks with the other parties. These talks could take weeks, but a new government will probably be installed before the sacrosanct August vacation period.

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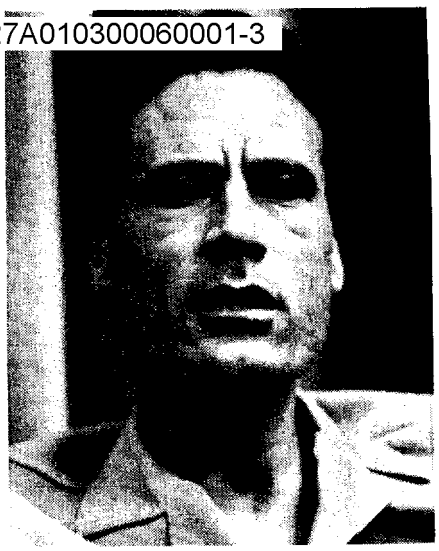

Laying pipeline in Libya; Qadhafi

LIBYA: QADHAFI'S WARNINGS

President Qadhafi used the celebration this week of the third anniversary of the American evacuation of Wheelus Air Base to level threats against the US. His fulminations were aimed primarily at placing maximum pressure on US oil companies to accept Libyan demands for 100-percent participation.

The Libyan leader charged that the US oil industry in Libya reflects the same "imperialist" attitude which shapes Washington's policy in the Middle East. He noted the "challenges" posed by US reconnaissance flights off the Libyan coast. He announced the nationalization of the American-owned Bunker Hunt Company in an obvious attempt to dramatize his warning that a major showdown with all the oil companies may be at hand. Although the move has added a new element of tension to the deadlocked negotiations, the take-over of Bunker Hunt came as no surprise to the oil companies. Bunker Hunt has been vulnerable since its former partner, British Petroleum, was nationalized in 1971. Since then, Bunker Hunt has been operating without a formal agreement and its activities have been subject to increasing restrictions.

The Libyans will have little trouble absorbing the expense of the take-over. The gesture apparently has not panicked the other companies, which are standing behind their offer of a 50-50 joint operating agreement. The Libyans may believe their position has been strengthened by recent media coverage of the energy crisis, but some company officials apparently still hope that an acceptable compromise can be reached if the industry remains united.

Qadhafi also used the occasion to acclaim the cultural revolution he unleashed in April. At the same time, his remarks betrayed the first signs of concern over the activities of the hundreds of popular committees that have been formed since then in public utilities, private companies, and other institutions. He cautioned that enthusiasm should not outweigh reason and warned that the death penalty would be used against those who abuse or exploit their new-found power. Although the committee network is becoming institutionalized, the ruling Revolutionary Command Council seems to be having difficulties in monitoring some of the committees. Most have assumed substantial administrative authority, and some apparently have abused resident Egyptian workers.

Qadhafi's admonitions to his audience may have been an effort to convince President Sadat—a guest at the celebrations—that the committees would not be permitted to jeopardize the proposed union between the two countries. Popular opposition to the merger in both Libya and Egypt, already an obstacle, may become a serious stumbling block as the September deadline for union draws nearer. 25X1

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GREECE: LITTLE CHANGE

The Papadopoulos regime has begun to lift the lid on the form of government that Greece will have under the recently proclaimed republic. It is apparent that the "new" system will bring few meaningful changes in the personnel or style of government that has dominated Greece since 1967.

The new republic will have a strong presidency, similar to that of France. On 8 June, a government spokesman enumerated the principles upon which the republic will be based. The significant points:

- direct election of a president for a seven-year term with no re-election;
- election of a handpicked vice-presidential running mate who would succeed to the presidency if it became vacant;
- appointment by the president of a premier, the ministers of defense, foreign affairs and public order, and 20 of the 200 members of parliament.

A referendum will be held on 29 July. The people will be asked at that time to vote on the proposed changes and on a president. The provisional president, Prime Minister Papadopoulos, will be the only presidential candidate.

Members of the government have already begun campaigning. One spokesman promised a recent rally that suspended articles of the constitution, which guarantee political and individual rights, would be reinstated following approval of the proposed changes. He also claimed that under the proposals, the Greek prime minister's role would be greatly expanded and that the president's powers would be confined to foreign policy, national defense, and public order.

There is probably little substance in either claim. Constitutional articles concerning the political parties remain completely suspended, and it is unlikely that the regime would risk a full return to a multi-party system. The regime may permit the formation of political parties favorable to continued military rule. Indeed, Papadopoulos seems to have taken such a step already with the recent formation of a "cultural organization." As for the prime minister, he will probably have little real power, and there are reports that the job will be offered to a civilian politician, presumably to relieve Papadopoulos of blame for political failures.

It has become evident that no matter how the referendum turns out, the republic is here to stay. Government spokesmen have indicated that if the people fail to affirm these provisions, others will be offered, until Papadopoulos receives his vote of confidence. [redacted] 25X1

SOUTH AFRICA: THREAT TO A BOOM

(78 & 79)

Unprecedented inflation is threatening to undermine South Africa's budding economic boom. Price increases exceeded 10 percent during the past 12 months, almost double the rate during the preceding year. Inflation probably will continue at a high level through most of this year, and unless checked, it will jeopardize the government's efforts to stimulate growth. The government has been preoccupied with enhancing economic growth and is only now beginning to respond to accelerating inflation.

This year, an expansion of retail sales and factory output pointed to an upturn in the economy. Automobile sales are almost one third ahead of last year. Exports of diamonds, wool, and sugar are maintaining the rapid expansion begun last year. Gold is now well over $100 an ounce, and the high price is revitalizing South Africa's leading industry. Gold sales are yielding more than $50 million a week in foreign exchange. The only ominous note is the lag in commercial and industrial inventory build-up, indicating a reluctance by businessmen to step up investment.

Soaring food prices are leading the inflationary push; they have gone up more than 17

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percent since May 1972. Food prices are rising because of changes in regulatory measures, including relaxed controls on farm prices and reduced subsidies for agricultural transport. Reductions in vegetable and grain crops due to drought have contributed to the price hikes. Sharply increased rail rates, a round of wage and salary increases, and rising import costs are driving up non-food prices.

To slow rising import prices, Pretoria revalued the South African currency by 5 percent on 4 June. Because the rand is pegged to the US dollar, the latter's slide against European currencies had exacerbated South Africa's inflation by increasing the cost of imports from its principal trade partners. The revaluation will not significantly hurt South Africa's currently prosperous trade balance; the revaluation was moderate, and exports are likely to continue growing because of strong foreign demand.

The full impact of inflation on South Africa's economic revival is yet to be felt. Some inflationary causes, such as those associated with rail rates, should have only a short-term effect. Others, including rising wages, the shortage of local food crops, and rising import costs, will have a more prolonged influence. Rises in steel and petroleum prices are in prospect. As a result of all this, inflation may restrain the economy's growth to a pace well below the official goal of 5.75 percent, even though this is well above the poor showing of 3.1 percent last year. 25X1

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URUGUAY: GRUMBLING FROM BELOW

The unity the military leaders have displayed since they forced President Bordaberry to the wall in February has begun to disintegrate as a result of the bickering between the armed forces and Congress and a lack of demonstrated progress in revitalizing the nation's deteriorating economy.

At first, most of the officers were quick to hold the civilian politicians responsible for the lack of progress. Lately, there has been an increasing number of reports that some senior and middle grade officers now believe that most of the responsibility for the lack of movement can be placed with the military high command. The high command, they argue, is forfeiting the prestige the military gained in February. They believe programs must be implemented as soon as possible to show the public that the armed services can cure the maladies that have retarded the country's economic growth since the middle 1950s.

Much of this concern probably can be traced to the poor showing the services made in their clash with the Senate over the lifting of the immunity of a leftist senator suspected of collaborating with the Tupamaros. After marshaling troops and demanding swift action from the Senate, the armed forces were outwitted and forced to accept a compromise that allows Congress itself to try the senator.

Even if the immunity question is eventually resolved in the military's favor, there are other problems the military will have to solve before it can work effectively to improve political, economic, and social conditions. The major problem is a leadership void. Thus far, the generals have tried to oversee government through a collegiate system that has already proven ineffective in Uruguay. The new attempt at consensus policy-making has generated much planning and many grandiose announcements, but very little else. A new five-year development plan, for example, was long on what should be done, but short on how or when to get started.

Nothing has changed, many officers say. The press is full of proposed programs and studies, they note, but Uruguayans still face high unemployment, shortages of staple and consumer goods, and constantly increasing prices. With these signs of growing dissension within the armed forces, it seems unlikely that a further loss of military prestige could be long tolerated. Continued inaction will probably create pressure to reshuffle the high command. If a reshuffle occurs, it could give rise to an officer who might give direction to the country. 25X1

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PANAMA: OFF THE TRACK

100 Torrijos' plan to build a new Panama seems to have run off the track since he has been unable to find policies that would allow him to fulfill his "revolutionary" commitment to social reform while ensuring high economic growth and allow him to play upon Panamanian nationalism while pursuing a pragmatic foreign policy. On the domestic front Torrijos seems to be trying to disguise his paucity of ideas with a policy of high personal visibility that gives the appearance of great activity. In foreign policy Torrijos seems troubled by the hiatus in the canal negotiations. He is trying to demonstrate good will by keeping down the level of anti-US propaganda.

96 During his meeting with Secretary Rogers in Buenos Aires late last month, Foreign Minister Tack stressed this new restraint and stated that the Torrijos government expects it to have a positive effect on future canal negotiations. 98 This week, Tack indicated to the US ambassador that Panamanian media would play down press stories alleging that US officials once considered assassinating Torrijos. 97 The Panamanians have also hinted at some additional flexibility in their negotiating position on the duration of a new treaty.

92 At home, the business community, deeply suspicious of Torrijos, appears to have completely lost confidence in his ability to handle economic problems and for the first time is openly critical. 93 Students are restive; government bureaucrats are unhappy about budgetary stringencies; wage earners 90 91 are concerned about inflation; and the church 89 is once again at loggerheads with the regime.

94 Discontent has by no means reached a level that threatens stability, but the government seems to know that it is in hot water. It sometimes gives the impression of recognizing the need for reasoned policy but being unable to implement such policy in the face of radical pressure. 95 In an attempt to attract foreign investment and promote economic development, Panama offered a copper exploration concession to a Japanese consortium and a petroleum concession to Texaco. Nationalistic pressures, however, led to a cancelation of both offers and to a new and economically unsound policy of trying to develop natural resources alone. The government's chances of increasing the level of domestic investment are not good, and bold new social reform programs would frighten the business community even more.

100 Although Torrijos does have the ability to keep his political balance by reading the popular mood, at this point there is little ground for confidence that he will develop a new formula for solving all these problems. Instead, by midsummer he may again find it necessary to make a scapegoat out of the US in order to relieve his growing frustration and turn attention away from the incompetence of his government. 25X1

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ARGENTINA: TRANSITION PHASE

101 The transition of real power from the military to the Peronists is moving slowly in Argentina's many-layered bureaucracy, but the process 103 more frequently resembles anarchy than the assumption of power by a disciplined political force. Differences among the Peronists erupted into violence on at least one occasion, and the return to "popular" government has been the signal in many instances for public employees to rise up and oust administrators appointed by the military. The Campora government has made little headway in instituting new programs, although efforts to deal with inflation have been announced and laws dealing with banking and foreign businesses have been sent to Congress.

102 Appointments to government posts below cabinet level have been stalled on several occasions as a result of disagreements between rival

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factions of the broad and diverse Peronist movement. A good example of the turmoil is provided by the Atomic Energy Commission where young activists have demanded the dismissal of the chairman and where differences over the appointment of a new science minister have stalled important decisions. To hasten the appointment of Peronist administrators, Peronist youth and employee groups have occupied several government offices, several state-owned radio stations, hospitals, schools, and other public agencies. So far the new interior minister has rejected any government opposition to the take-overs although the Ministry of Education is preparing to move to reassert order in the schools. When differences have resulted in violence, as at a recent Peronist rally where one man was killed and several wounded, the trouble has been attributed to "communist" infiltrators.

The new economic team has been organized more rapidly than other parts of government and has made a start at dealing with some of Argentina's serious economic problems. A "social agreement" ironed out between the Peronist-controlled labor confederation and the pro-Peronist confederation of small businessmen apparently will serve as the foundation of the government's effort to slow inflation. The businessmen agreed to ceilings, and possibly even a few rollbacks, on the prices of some basic consumer goods, and labor agreed to tighten its belt somewhat. Initial wage increases will not offset the rapid inflation of recent months and collective bargaining over the next two years will deal only with working conditions. Additional salary hikes are to be determined by the government during that period.

The Campora government has sent to Congress new laws that call for greater government control over bank deposits and foreign trade, as well as the return to Argentine hands of firms that were acquired by foreign interests after the military took over in 1966. The banking and foreign trade legislation apparently will not force out private firms but will put them completely under government regulation. For instance, private banks will apparently be permitted to retain deposits but will, in effect, act only as agents for the central bank, thus putting the government in a better position to control the allocation of credit and restrict capital flight. The steps against foreign firms have not been fully spelled out, but it appears that the government will insist that 80 percent of the capital of these firms be in Argentine hands.

The various Peronist factions and special interests will hope to see their differences resolved when "El Lider," Juan Domingo Peron, returns to Argentina next week. In contrast to his return last November, large and joyous celebrations are expected. Even Peron's political opponents are now saying that he is the only man who can control the various competing forces. He has his work cut out for him. [redacted] 25X1

CHILE: TROUBLES MOUNT

Faced with the gravest economic and political problems of his administration, President Allende is searching for a new compromise between the armed forces and his Popular Unity coalition.

Most military leaders now are convinced that they must do something to brake the country's downhill slide, but they cannot agree whether they should rejoin the cabinet, move to oust the government, or force some improvement by making their concern felt in other ways. General Carlos Prats, the army chief, returned last week from an extensive trip abroad. He was appalled by the low opinion of Chile he found in the countries he visited and the turmoil he found back home. [redacted] 25X1

While the officers Prats recommends as ministers are supporters of Allende, their fellow

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generals are likely to put up conditions for military re-entry into the cabinet that would be unacceptable to Popular Unity leaders. Other ranking officers continue to enlist support for a move to oust the government, but they do not yet feel prepared to act. Allende is almost certainly aware of the plotting, but he and leaders of his coalition believe the plotters still do not have the necessary support of key army commanders to succeed.

It is obvious that most Communist and Socialist leaders are now convinced that the government must assert its power strongly against the opposition, and they do not want to be restrained by the presence of the military in the cabinet. Some strategists of both parties, however, reluctantly agree that the government is under such serious challenge—from the courts, the congress, the workers and demonstrators in the street—that military ministers may be the one sure way of keeping the administration in power.

Impeachment proceedings against three key ministers are moving through congress and will make some cabinet adjustments imperative in the near future. Intensive bargaining is under way, with Allende, as usual, in the middle. He would like to pacify military unrest and shore up his authority by recalling officers into the cabinet, but he may find that he will not be able to afford the price the armed forces will demand. The battle to socialize Chile seems certain to drag on a while longer. [redacted] 25X1

INTERNATIONAL MONEY

International currency markets have been quiet during the past week, with the dollar moving in a relatively narrow range and the gold price dropping off slightly. The mark remains strong and appears to be solidifying its position at the top of the European joint float band. It had been at the bottom of the band for most of the float's existence. The mark's new strength relative to other European currencies is based on Bonn's tight money policy and surging export performance. On the other hand, the lira, floating independently, continues its rapid decline in the face of domestic political and economic problems. It has dropped by over 4 percent against the dollar since 1 June and about 7 percent since 19 March. The Bank of Italy had been selling dollars regularly in support of the lira in the last half of May, but stopped intervention in recent weeks when pressures on the lira increased.

[redacted] The price of gold has been fluctuating widely, partly a result of light trading. 25X1

The Hague last week joined Paris in asking Washington to intervene in support of the dollar. The top Dutch financial official, speaking when pressures on the dollar were intense, said that US policy smacked of "competitive devaluation by deliberate inaction." If substantial dollar selling resumes, other West European nations can be expected to join in demanding that the United States support the dollar.

The same Dutch official expressed concern that the US and Europe are on a collision course in monetary reform discussions. He strongly suggested that if Washington is not willing to make concessions with respect to balance-of-payments adjustment and dollar convertibility, the US could not expect progress toward reform. There are so many differences of opinion on the shape of reform—between Washington and Europe, between the developed and developing nations, and among the European nations themselves—that US concessions would hardly guarantee rapid progress. [redacted] 25X1

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